MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

PEM0034 – ESSENTIALS OF MACROECONOMICS

(Foundation in Management)

9 MARCH 2018
3.00 p.m. – 5.00 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **TEN (10) pages** excluding cover page with Section A and Section B.
   Section A: 40 multiple choice questions
   Section B: 3 structured questions

2. Answer **ALL** questions in **Sections A & B**.

3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS [40 MARKS]

Instructions: Answer ALL questions in this section. Shade the answers on the OMR sheet.

1. National income accountants can avoid multiple counting by
   A. including transfers in their calculations.
   B. counting both intermediate and final goods.
   C. only counting final goods.
   D. only counting intermediate goods.

2. Which of the following is an intermediate good?
   A. The purchase of gasoline by a Japanese for a ski trip to Fuji Mountain.
   B. The purchase of a pizza by a university student.
   C. The purchase of baseball bats by a professional baseball team.
   D. The purchase of jogging shoes by a professor.

3. Net exports are negative when
   A. a nation's imports exceed its exports.
   B. the economy's stock of capital goods is declining.
   C. depreciation exceeds domestic investment.
   D. a nation's exports exceed its imports.

4. If nominal Gross Domestic Product (GDP) rises,
   A. real GDP may either rise or fall.
   B. we can be certain that the price level has risen.
   C. real GDP must fall.
   D. real GDP must also rise.

5. GDP data are criticised as being inaccurate measures of economic welfare because
   A. they do not take into account changes in the amount of leisure.
   B. they do not take into account changes in product quality.
   C. they do not take into account the adverse effects of economic activity on the environment.
   D. of all of the above considerations.

6. With a marginal propensity to save (MPS) of 0.4, the Marginal Propensity to Consume (MPC) will be
   A. 1.0 minus 0.4.
   B. 0.4 minus 1.0.
   C. the reciprocal of the MPS.
   D. 0.4.

Continued...

7. The Average Propensity to Consume (APC) is calculated as
   A. change in consumption / change in income.
   B. consumption / income.
   C. change in income / change in consumption.
   D. income / consumption.

8. As disposable income increases, consumption
   A. and saving both increase.
   B. and saving both decrease.
   C. decreases and saving increases.
   D. increases and saving decreases.

9. The aggregate demand curve is
   A. vertical if full employment exists.
   B. horizontal when there is considerable unemployment in the economy.
   C. downward sloping because of the interest-rate, wealth, and exchange rate effects.
   D. downward sloping because production costs decrease as real output rises.

10. Which one of the following would **NOT** shift the aggregate demand curve?
   A. A change in the price level.
   B. Depreciation of the international value of the dollar.
   C. A decline in the interest rate at each possible price level.
   D. An increase in personal income tax rates.

11. Assume the economy is at full employment and that investment spending declines dramatically. Under these conditions government fiscal policy should be directed toward
   A. an equality of tax receipts and government expenditures.
   B. an excess of tax receipts over government expenditures.
   C. an excess of government expenditures over tax receipts.
   D. a reduction of subsidies and transfer payments and an increase in tax rates.

12. If you write a check on a bank to purchase a used Toyota Vios, you are using money primarily as
   A. a medium of exchange.
   B. a store of value.
   C. a unit of account.
   D. an economic investment.

Continued...

13. In Malaysia, the money supply (M1) is comprised of
    A. coins, paper currency, and checkable deposits.
    B. currency, checkable deposits, and Series E bonds.
    C. coins, paper currency, checkable deposits, and credit balances with brokers.
    D. paper currency, coins, gold certificates, and time deposits.

14. The value of money varies
    A. inversely with the price level.
    B. directly with the volume of employment.
    C. directly with the price level.
    D. directly with the interest rate.

15. The asset demand for money
    A. is unrelated to both the interest rate and the level of GDP.
    B. varies inversely with the rate of interest.
    C. varies inversely with the level of real GDP.
    D. varies directly with the level of nominal GDP.

16. Suppose the reserve requirement is 20 percent. If a bank has reserves of RM1 million and checkable deposits of RM4 million, it can safely lend out
    A. RM1 million.
    B. RM1.2 million.
    C. RM200,000.
    D. RM800,000.

17. The greater the legal required reserve ratio, the
    A. higher is the income multiplier.
    B. lower is the income multiplier.
    C. lower is the money multiplier.
    D. higher is the money multiplier.

18. The consumer price index was 166.6 in 1999 and 172.2 in 2000. Therefore, the rate of inflation in 2000 was about
    A. 6.7 percent.
    B. 3.4 percent.
    C. 1.2 percent.
    D. 4.1 percent.

Continued...

19. Recently a labour union argued that the standard of living of its members was falling. A critic of the union argued that this could not possibly be true because the union had been acquiring significant increases in the nominal incomes of its members through collective bargaining. Is the critic correct?
    A. Yes, because when you have a large nominal income your standard of living automatically increases.
    B. No, because real income may fall if price increases are more proportionately than the increase in nominal income.
    C. No, because real income may fall if price increases are less proportionately than the increases in nominal income.
    D. Yes, because real income may fall if price increases are less proportionately than the increases in nominal income.

20. Who is least likely to be hurt by unanticipated inflation?
    A. A disabled labourer who is living off accumulated savings.
    B. An owner of a small business.
    C. A secretary.
    D. A pensioned steelworker.

21. When the consumer price index rises, the typical family
    A. has to spend more Ringgit Malaysia to maintain the same standard of living.
    B. can spend fewer Ringgit Malaysia to maintain the same standard of living.
    C. finds that its standard of living is not affected.
    D. can offset the effects of rising prices by saving more.

22. The consumer price index and the GDP deflator are two alternative measures of the overall price level. Which of the following statements about the two measures is correct?
    A. The two measures are constructed differently, but they will always indicate the same inflation rate.
    B. The substitution bias applies equally to both measures.
    C. A change in the price of Japanese-made televisions shows up in the Malaysian consumer price index but not in the GDP deflator.
    D. All of the above are correct.

23. Kimberly voluntarily quit her job as an insurance agent to return to school full-time to earn an MBA degree. With degree in hand she is now searching for a position in management. Kimberly presently is
    A. cyclically unemployed.
    B. structurally unemployed.
    C. frictionally unemployed.
    D. not a member of the labour force.

Continued...

24. The labour force includes
    A. employed workers and persons who are officially unemployed.
    B. employed workers, but excludes persons who are officially unemployed.
    C. full-time workers, but excludes part-time workers.
    D. permanent employees, but excludes temporary employees.

25. The natural rate of unemployment is
    A. higher than the full-employment rate of unemployment.
    B. lower than the full-employment rate of unemployment.
    C. the rate of unemployment that occurs when the economy is at full employment.
    D. found by dividing total unemployment by the size of the labour force.

26. Assuming the total population is 100 million, the civilian labor force is 50 million, and 47 million workers are unemployed, the unemployment rate is
    A. 3 percent.
    B. 6 percent.
    C. 7 percent.
    D. 9 percent.

27. Suppose there are 5 million unemployed workers seeking jobs. After a period of time, 1 million of them become discouraged over their job prospects and cease to look for work. As a result of this, the official unemployment rate would
    A. increase in the short run but eventually decline.
    B. increase.
    C. decline.
    D. be unchanged.

28. Cyclical unemployment results from
    A. a deficiency of aggregate spending.
    B. the decreasing relative importance of goods and the increasing relative importance of services in Malaysian economy.
    C. the everyday dynamics of a free labour market.
    D. technological change.

29. If country A can produce both goods X and Y more efficiently, that is, with smaller absolute amounts of resources, than can country B,
    A. mutually advantageous specialisation and trade between A and B may still be possible.
    B. we can conclude that A is an industrially advanced economy and B is a developing economy.
    C. it will necessarily be advantageous for B to import both X and Y from A.
    D. then there is no possible basis for mutually advantageous specialisation and trade between A and B.

Continued...

30. The terms of trade reflect the
    A. rate at which gold exchanges internationally for any domestic currency.
    B. ratio at which nations will exchange two goods.
    C. fact that the gains from trade will be equally divided.
    D. cost conditions embodied in a single country's production possibilities curve.

31. Suppose the domestic price (no-international-trade price) of copper is $1.20 a pound in the United States while the world price is $1.00 a pound. Assuming no transportation costs, the United States will
    A. have a domestic surplus of copper.
    B. export copper.
    C. import copper.
    D. neither export nor import copper.

Use the following ***Figure 1*** to answer questions 32 – 34:

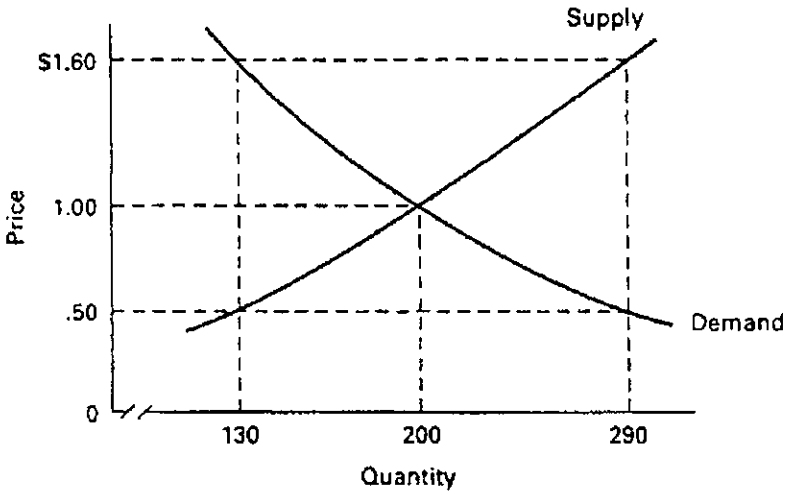

Figure 1

32. Refer to the ***Figure 1*** that shows the domestic demand and supply curves for a specific standardised product in a particular nation. If the world price for this product is $1.60, this nation will experience a domestic
    A. shortage of 160 units, which it will meet with 160 units of imports.
    B. shortage of 160 units, which will increase the domestic price to $1.60.
    C. surplus of 160 units, which it will export.
    D. surplus of 160 units, which will reduce the world price to $1.00.

Continued...

33. Refer to the ***Figure 1*** that shows the domestic demand and supply curves for a specific standardised product in a particular nation. If the world price for this product is $0.50, this nation will experience a domestic
A. shortage of 160 units, which it will meet with 160 units of imports.
B. shortage of 160 units, which will increase the domestic price to $1.60.
C. surplus of 160 units which it will export.
D. surplus of 160 units, which will reduce the world price to $1.00.

34. Refer to the ***Figure 1*** that shows the domestic demand and supply curves for a specific standardised product in a particular nation. If the world price of this product is $1, this nation will
A. export all of the product.
B. import all of the product.
C. import some of the product and produce some of the product domestically.
D. neither export nor import the product.

35. U.S. import transactions create
A. a foreign demand for dollars and the satisfaction of this demand decreases the supplies of foreign monies held by U.S. banks.
B. a foreign demand for dollars and the satisfaction of this demand increases the supplies of foreign monies held by U.S. banks.
C. a U.S. demand for foreign monies and the satisfaction of this demand decreases the supplies of foreign monies held by U.S. banks.
D. a U.S. demand for foreign monies and the satisfaction of this demand increases the supplies of dollars held by foreign banks.

36. Other things equal, the financing of a U.S. export transaction
A. reduces U.S. interest rates.
B. decreases the supplies of foreign currency held by U. S. banks.
C. decreases GDP in the U. S.
D. increases the supplies of foreign currency held by U.S. banks.

37. The current account in a nation's balance of payments includes
A. its goods exports and imports, and its services exports and imports.
B. changes in its official reserves.
C. purchases of foreign assets, and foreign purchases of assets.
D. all of the above.

38. A nation's official reserves account
A. compensates for differences in the current and capital accounts.
B. is always positive.
C. is always zero.
D. is always negative.

Continued...

39. If the exchange rate between the U.S. dollar and the Japanese yen is \$1 = 200 yen, then the dollar price of yen is
    A. \$0.005.
    B. \$0.05.
    C. \$0.50.
    D. \$5.

40. Assume that under a system of flexible exchange rates, Mexicans decide to increase their investments in the United States. As a result
    A. the peso and the dollar will both depreciate.
    B. the peso and the dollar will both appreciate.
    C. the peso will depreciate and the dollar will appreciate.
    D. the peso will appreciate and the dollar will depreciate.

SECTION B: STRUCTURED QUESTIONS (60 MARKS)

Instructions: Answer **ALL** questions in this section. Write your answers in the answer booklet provided.

Question 1

a) Use the figures in ***Table 1*** below to answer the following questions.

Table 1

Item	RM (Billion)
Compensation of employees	4,150
Net Interest	700
Personal consumption expenditure	1,650
Government services	250
Income received from abroad	600
Transfer payment	500
Undistributed profits	620
Rent	370
Indirect taxes	450
Income paid to abroad	480
Depreciation	200
Dividend	520
Proprietor's income	850
Tax on companies' profit	200
Personal income taxes	650

Continued...

Based on ***Table 1***, calculate the:

(i) National Income. (4 marks)

(ii) Gross domestic product (GDP) at market price. (3 marks)

(iii) Personal disposable income. (3 marks)

b) With the aid of AD-AS diagrams, illustrate the differences between demand-pull inflation and cost-push inflation. (10 marks)

[Total: 20 marks]

Question 2

a) Using appropriate examples, discuss **THREE (3)** motives for holding money. (9 marks)

b) Define monetary policy. Discuss the **THREE (3)** instruments of expansionary monetary policy that are used to promote a sustainable economic growth with higher employment. (11 marks)

[Total: 20 marks]

Question 3

a) Discuss **THREE (3)** main reasons why international trade could be advantageous to Malaysia. (6 marks)

b) ***Table 2*** below shows the output that can be produced by two countries.

Table 2

Country	Rice (tonne)	Computer (unit)
Malaysia	600	1,500
Indonesia	2,000	650

Assuming the resources are divided equally between the production of rice and computers.

(i) Define absolute advantage. State the country that has the absolute advantage in the production of rice and computers. (2 marks)

(ii) Calculate the opportunity cost of each country for producing one tonne of rice and one unit of computer. (2 marks)

Continued...

(iii) Which country has the comparative advantage of producing rice and computers? (1 mark)

(iv) Construct a new table to show the amount of output produced after specialisation. (1 mark)

c) Differentiate between flexible exchange rate and fixed exchange rate. (4 marks)

d) Suggest **TWO (2)** ways to reduce trade deficit. (4 marks)

[Total: 20 marks]

End of Questions

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